CHANNEL AREA LOGGERS LTD.

ANNUAL REPORT

1985 - 1986

CHANNEL AREA LOGGERS LTD.

BOARD OF DIRECTORS

Lester Everett - Chairperson
Chief - Berens River Indian Band

Bruno Seppala
Chief - Timber Management & Development
Department of Natural Resources

Edmond Berens
Councillor - Berens River Indian Band

Bill Hudson
Councillor - Berens River Indian Band

Henry A. McKay
Councillor - Community of Berens River

Henry G. McKay
Fisherman - Berens River

Jack Clarkson
Entrepreneur - Berens River

OFFICERS

Lester Everett

President

Gordon P. Trithart

Secretary/Treasurer

George Kemp

Manager

HEAD OFFICE: Berens River, Manitoba

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APPENDIX - Audited Financial Statements
For Year Ended March 31, 1986

CHANNEL AREA LOGGERS LTD. - ANNUAL REPORT

APRIL 1, 1985 - MARCH 31, 1986

I. INTRODUCTION:

Channel Area Loggers Ltd. is a Crown Corporation established in 1973 under the Manitoba Natural Resources Development Act to provide, as a principal objective, an economically viable logging operation creating employment and training opportunities for residents of Berens River and surrounding communities.

The Company conducts pulpwood harvesting operations on the east side of Lake Winnipeg where a valuable forestry resource exists and where there is a serious lack of employment opportunities.

Mechanical harvestors, mainly skidders, are used to harvest spruce pulpwood in eight foot lengths for sale to Abitibi-Price Inc. at Pine Falls. Abitibi-Price Inc. accepts delivery of the pulpwood at a barge landing on the east side of Lake Winnipeg. The product is used to produce newsprint at their Pine Falls mill.

Losses since the Company's inception in 1973, now total $1,981,159. Profit/Loss for the last seven fiscal years ending March 31st are as follows:

	Profit	Loss
1980		$ 278,011
1981		173,487
1982		17,262
1983	$ 38,976	
1984		148,949
1985		235,635
1986		17,901

Profit/Losses in the foregoing table are prior to receipt of general subsidies from the Province, but include receipt of specific subsidies provided to offset developmental costs. Total assistance from the Province for the year ended March 31, 1986 was $17,901 compared to $242,917 and $213,434 for the two prior years. (Refer to Page 4).

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II. SYNOPSIS OF THE YEAR'S EVENTS:

As a result of current year initiatives, the significant losses of the last two years have been dramatically reduced and the Company is optimistic that the profit position of 1982-83 will again be achieved within the next two years.

On the initiative of the Department of Northern Affairs and with the assistance of the Department of Crown Investments, a comprehensive review of Company operations occurred in 1985. This review culminated in improved cost control measures, budgeting techniques and the development of a business plan. The business plan and budget have been closely monitored to ensure compliance.

Over the years the Company has experienced difficulty in recruiting and retaining qualified staff. This difficulty has had a negative effect on both operations and accounting. Late in the year a local resident was hired, resulting in all staff now being residents of Berens River. On-the-job training included a process of involving all Company employees and the Board of Directors in planning the Company's future. This process resulted in improved relationships. Training is an integral working part of the overall Company objectives and must continue if the local resident staff and Manager are to meet the short and long term Company objectives, including viability.

The review of operations revealed that a feller/buncher (snipper) was required, not only to improve volumes of pulpwood harvested, but also to properly utilize the resource. The feller/buncher is used to extract large quantities of spruce pulpwood from low lying areas during the 2 - 3 months of heavy frost and to cut small diameter wood. Productivity normally diminishes rapidly in small diameter wood, thus causing financial hardship to skidder owner/operators and their crews. The mechanical feller/buncher rented for the current year's operation produced 7,213 cords. If the Company is to be viable and harvest the resource in an appropriate manner, there is an ongoing need for a feller/buncher. However, to maintain employment and allow skidder owner/operators to succeed, a proper balance between feller/buncher production and chain saw harvested production must be maintained.

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Winter road access from the Community to the camp is maintained from late December to mid March. At a total cost of $275,800, funded by the Canada/Manitoba Northern Development Agreement, a 17 mile dry weather road is being constructed between the Community of Berens River and the campsite. This road is expected to be completed in the early summer of 1986 and within the budgeted amount.

Outside contracting was limited to the rental of a crawler dozer for road construction and 4 of the 5 trucks used to haul pulpwood to the landing on Lake Winnipeg.

There were no changes to the Board of Directors during the year under review.

III. REVIEW OF RESULTS:

A. Financial Results

Appended are audited financial statements for the fiscal year 1985-86, as prepared by the Provincial Auditor. These statements report a loss of $17,901 for 1985-86 compared to a loss of $235,635 for the previous year. These figures are following receipt of specific developmental subsidies provided by the Province and funding provided by the Canada/Manitoba Northern Development Agreement for the access road.

The substantial financial improvement for the year under review can be attributed to the comprehensive review process outlined in the synopsis. This process resulted in improved productivity, provided an improved return on goods and services, and in general enabled the Company to function in a more businesslike manner. The following table outlining subsidies provided by the Province, demonstrates recent progress.

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	1983-84	1984-85	1985-86
1. General Subsidy to Offset Annual Loss	$109,973	$235,635	$ 17,901
2. Specific Subsidies			
a) Operating			
Campsite Relocation	55,700		
Winter Road Construction	15,826		
Consulting Fees	6,486		
Strip Cutting Program	4,412	7,282	
Sub-Total	$ 82,424	$ 7,282	
b) Capital			
Timber Inventory Survey	$ 21,037		
3. Total Assistance	$213,434	$242,917	$ 17,901

The following table illustrates per cord costs for major expenditure categories over the past three years:

Cost Category	1983-84	1984-85	1985-86
Cutters & Contract Wood	$ 34.00	$ 33.32	$ 31.81
Transportation - Wood haul	9.74	13.32	13.19
Company Equip. & Main.	3.73	3.45	1.88
Roads	8.48	7.91	4.64
Kitchens & Dorms	.97	2.12	.92
General & Admin.	31.84	18.69	16.63
Supervision & Bush	2.89	2.59	.52

The general decrease in per cord costs can be attributed to a 19.9% increase in production. Transportation costs increased substantially for the last two years and are attributed to the increased haul distance which resulted when the Company commenced cutting on the Berens River. The Company continues to utilize local owner/operators to meet mechanical equipment needs whenever feasible and practical. This has reduced Company equipment and maintenance costs. Costs relating to Kitchen and Dorms reflect an improved return on services provided. The decrease of $2.06

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per cord in General and Administrative costs is due to the increase in production. Increases in insurance costs which occurred throughout the industry and $12,559 in depreciation resulting from an upgraded camp at the new location were the major changes in General and Administrative costs.

B. Production

An outline of production for the past four years and delivered pulpwood for the past six years are included in the following tables:

Annual Pulpwood Production in Cords
For the Years Ending March 31st

	1983	1984	1985	1986	
Strip Production:					
- Cut, Pile & Forward	407	100	448	-	
Skidder Production:					
- Owner/Operators	12,593	7,300	12,815	15,903	(1)
TOTAL	13,000	7,400	13,263	15,903	(2)

(1) Inventory carry-over to 1987 is 873 cords (1984-85 carry-over was 311 cords).

(2) Includes 7,213 cords of snipper wood.

Annual Delivered and Sold Pulpwood Volume in Cords
As at March 31st

1986	15,341
1985	15,483
1984	4,900
1983	19,000
1982	22,000
1981	19,151

While production was budgeted at 16,500 cords for 1985-86, the Company was only able to produce 15,903 cords due to the absence of a spring cut.

The feller/buncher was rented for the following reasons:

1) to ensure that production targets were achieved;
2) to enable high volume production to occur in swampy areas during the winter freeze-up period;
3) to facilitate harvesting of small diameter wood which would not b profitable to produce under the cut and skid method. This has the added benefit of reducing absenteeism levels.

To ensure that existing employment levels are maintained, the Company intends to maintain an appropriate mix of both feller/buncher and cut and skid production.

C. Other Benefits

The Company employed a total of 36 people in 1985-86 with wages and benefits totalling $246,030 compared to $291,458 in 1984-85. Payments to and on behalf of contractors, including wages, amounted to $637,080 in 1985-86 compared to $593,552 in 1984-85. The decrease in wages is due to a reduction of $26,093 in supervisory wages (as the feller/buncher decreases this need) and $14,446 in piecework wages. Some 55% of total wages were paid to residents of Berens River and another 30% to individuals of Indian ancestry from other areas of the Province. Approximately 85% of the payments to contractors were to residents of the Channel Area.

Reforestation played an important employment role during the year as the Company contracted with the Department of Natural Resources and successfully planted 200,000 seedling trees. Planting is generally undertaken in the early summer and fall during unproductive logging periods, thus providing additional employment to loggers as well as residents of the Community.

The Company is the second largest employer in the Berens River area. Only commercial fishing employs more local individuals.

The Company maintains a commissary and grocery store facility for employees. This facility provides a variety of food products, confectionary items, and winter clothing, in addition to an order office for skidder and power saw parts.

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D. Training

The Company continues to provide on-the-job training to production employees. The comprehensive review undertaken in 1985 was beneficial to Directors, the Manager and employees as both plan preparation and implementation required considerable interaction, acceptance and commitment. The totally local resident staff will require a transition period in order to upgrade their skills. In the interim, support is required from the Department of Northern Affairs and the Company's chartered accountant.

E. Other

A Secretary to the Board of Directors is provided by the Provincial Government. This position provides administrative and management support to the local operation and ensures adequate liaison between the Company and Government and between the Board of Directors and management.

Manitoba

CHANNEL AREA LOGGERS LTD.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Channel Area Loggers Ltd. as at March 31, 1986 and the statement of revenues and expenditures, the statement of changes in financial position and the schedules of operating expenses for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in the method of calculating depreciation as described in note 4 to the financial statements, on a basis consistent with that of the preceding year.

Fred H. Jackson

F. H. Jackson, C.A.,
Provincial Auditor.

October 17, 1986,
Winnipeg, Manitoba.

Exhibit A

CHANNEL AREA LOGGERS LTD.

(Incorporated Under The Corporations Act, Manitoba)

Balance Sheet
as at March 31, 1986
(with 1985 figures for comparison)

ASSETS

	1986	1985
CURRENT ASSETS:		
Accounts receivable (Note 2)	$ 200,745	$ 258,831
Subsidy receivable from the Government of the Province of Manitoba	253,541	235,640
Inventories (Note 3)	115,716	148,263
Prepaid expenses	-	708
Total current assets	570,002	643,442
FIXED ASSETS (Note 4)	462,188	437,937
Less accumulated depreciation	232,067	199,842
Net fixed assets	230,121	238,095
GUARANTEE DEPOSIT WITH THE GOVERNMENT OF THE PROVINCE OF MANITOBA	900	900
TOTAL	$ 801,023	$ 882,437

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Excess of outstanding cheques over bank balances	$ 155,613	$ 3,723
Bank demand loan (Note 5)	176,000	372,000
Accounts payable (Note 6)	133,185	206,624
Advances from the Government of Canada (Note 7)	36,135	-
Total current liabilities	500,933	582,347
SHAREHOLDERS' EQUITY:		
Capital stock (Note 8):		
Authorized: 35,000 common shares, maximum consideration not to exceed $350,000		
Issued: 30,009 shares	300,090	300,090
TOTAL	$ 801,023	$ 882,437

Approved by the Board:

Director _____

Director _____

Exhibit B

CHANNEL AREA LOGGERS LTD.

Statement of Revenues and Expenditures
for the year ended March 31, 1986
(with 1985 figures for comparison)

	1986	1985
REVENUES:		
Pulpwood sales	$ 1,043,281	$ 1,044,769
Commissary sales	181,139	185,417
Board charges	26,060	17,110
Miscellaneous	17,314	13,047
Reforestation program (Note 10)	56,000	-
Total revenues	1,323,794	1,260,343
EXPENDITURES:		
Direct logging costs (Schedule 1)	902,594	1,106,794
General and administrative (Schedule 2)	264,366	247,780
Commissary	147,521	174,062
Reforestation program (Note 10)	37,122	-
Total expenditures	1,351,603	1,528,636
	(27,809)	(268,293)
OTHER INCOME:		
Gain on disposal of fixed assets	9,908	3,194
Excess (deficiency) of revenues over expenditures before prior period adjustments and operating assistance from the Government of the Province of Manitoba	(17,901)	(265,099)
Prior period adjustments	-	(15,413)
Excess (deficiency) of revenues over expenditures before operating assistance from the Government of the Province of Manitoba	(17,901)	(280,512)
Operating Assistance from the Government of the Province of Manitoba - General subsidy	17,901	235,635
- Specific subsidy	-	44,877
	17,901	280,512
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ -	$ -

Exhibit C

CHANNEL AREA LOGGERS LTD.

Statement of Changes in Financial Position
for the year ended March 31, 1986
(with 1985 figures for comparison)

	1986	1985
SOURCE OF FUNDS:		
Charges to operations not involving an outlay of funds:		
Depreciation	$ 50,339	$ 32,350
Deferred expenditures, net	-	1,281
Gain on disposal of fixed assets	(9,908)	(3,194)
	40,431	30,437
Proceeds from disposal of fixed assets	12,100	4,500
	52,531	34,937
USE OF FUNDS:		
Purchase of fixed assets, net	44,557	88,619
Increase (Decrease) in working capital for the year	7,974	(53,682)
Working capital at beginning of the year	61,095	114,777
Working capital at end of the year	$ 69,069	$ 61,095
Represented by:		
Current assets	$ 570,002	$ 643,442
Current liabilities	500,933	582,347
	$ 69,069	$ 61,095

CHANNEL AREA LOGGERS LTD.

Schedule of Direct Logging Costs
for the year ended March 31, 1986
(with 1985 figures for comparison)

	1986	1985
INVENTORY AT BEGINNING OF THE YEAR	$ 16,793	$ 128,956
PRODUCTION EXPENSES:		
Contract wood purchases	360,968	282,633
Cutters wages and fringe benefits	144,776	159,222
Depreciation	17,050	11,620
Transportation:		
Contract hauling to landing	202,362	206,126
Forwarding to roadside	72	2,765
Freight and fuel movement	10,778	18,979
Personnel transport	11,129	20,163
Road construction and maintenance, net	73,750	104,793
Timber dues	41,454	33,583
Supervision	8,257	34,350
Repairs and maintenance	29,837	45,644
Insurance	-	3,168
Other	-	4,651
Kitchen and dormitory	14,495	28,058
Timber inventory survey	-	38,876
Total production expenses	914,928	994,631
INVENTORY AT END OF THE YEAR	29,127	16,793
DIRECT LOGGING COSTS, EXHIBIT B	$ 902,594	$ 1,106,794

CHANNEL AREA LOGGERS LTD.

Schedule of General and Administrative Expenses
for the year ended March 31, 1986
(with 1985 figures for comparison)

	1986	1985
Salaries, wages and fringe benefits	$ 92,997	$ 97,886
Interest and service charges	40,436	37,787
Travel and accommodation	3,680	5,843
Mobile home	3,042	6,792
Communications	3,559	5,057
Bad debts	32,145	27,510
Legal, audit and accounting	24,937	21,494
Directors' travel and accommodation	5,281	7,105
Directors' fees	2,760	2,600
Office supplies and utilities	2,126	1,777
Taxes, licences and fees	4,873	2,146
Insurance	14,961	10,120
Depreciation	33,289	20,730
Miscellaneous	280	933
General and administrative expenses, Exhibit B	$ 264,366	$ 247,780

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1986

1. Significant Accounting Policies

The following is a summary of the significant accounting policies of the Company.

Inventories:

Pulpwood inventory is valued at the lower of cost or net realizable value based upon the agreed price of deliveries to the purchaser, less an allowance for cullage and shrinkage.

Other inventories are valued at cost.

Fixed assets:

Fixed assets are stated at cost. It is the company's policy to provide for depreciation and amortization of fixed assets on the basis shown in note 4.

Revenue recognition:

Pulpwood sales are recognized on the basis of pulpwood delivered to landing and scaled in accordance with the terms of the sales contract.

2. Accounts Receivable

The major categories of accounts receivable are:

	1986	1985
General	$ 170,089	$ 181,800
Government of the Province of Manitoba	-	7,282
Government of Canada	-	18,567
Contract cutters	30,656	51,182
	$ 200,745	$ 258,831

3. Inventories

The major categories of inventory are:

Pulpwood	$ 29,127	$ 16,793
Other:		
Commissary supplies	933	9,838
Chain saws	-	2,102
Parts and supplies	32,828	36,434
Gasoline, diesel fuel and oil	49,075	74,482
Kitchen supplies	3,753	8,614
	86,589	131,470
	$ 115,716	$ 148,263

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1986

4. Fixed Assets

The major categories of fixed assets and related accumulated depreciation at March 31, 1986 are:

	Cost	Accumulated Depreciation	Rates
Buildings and Trailers	$ 319,607		
Less: Funded by the Government of Canada	67,298		
	252,309	109,824	10%
Machinery and Equipment	231,068		
Less: Funded by the Government of the Province of Manitoba	21,189		
	209,879	122,243	10-15%
Road construction in progress (Note 7)	195,834		
Less: Funded by the Government of Canada	195,834		
	-	-	
	$ 462,188	$ 232,067	

It is the company's practice to provide for depreciation of buildings, trailers, machinery and equipment under the straight-line basis at the rates shown above.

Previously the Company used a declining balance basis for depreciation but changed to a straight-line basis for the current year. The effect of this change was to increase depreciation expense from $45,821 to $50,339 for the year ended March 31, 1986. This change was not applied retroactively.

5. Bank Demand Loan

The bank demand loan is guaranteed by the Government of the Province of Manitoba to a maximum of $500,000 including unpaid interest.

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1986

6. Accounts Payable

The major categories of accounts payable are:

	1986	1985
Trade	$ 62,541	$ 136,510
Wage deductions	20,387	8,908
Employees	-	5,820
Government of the Province of Manitoba	50,257	55,386
	$ 133,185	$ 206,624

7. Advances from the Government of Canada

The Company undertook the construction of a dry weather road under the Canada Manitoba Northern Development Agreement. The agreement provides for the Company to receive assistance based on actual expenditures incurred to a maximum of $275,800. During the year the Company received assistance of $231,969 and expended $195,834.

8. Capital Stock

The issued shares are held by the Government of the Province of Manitoba except for nine shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba.

9. Services Provided by the Government of the Province of Manitoba

The Government of the Province of Manitoba provides the services of the Secretary-Treasurer and other miscellaneous administrative services at no charge to the Company. The cost of these services is approximately $55,000 (1985 - $53,000). The Government of the Province of Manitoba also provides Workers Compensation coverage for Company staff at no charge to the Company.

10. Reforestation Program

The Company undertook a reforestation program under an agreement with the Government of the Province of Manitoba. The agreement provided for payments to the Company on the basis of the number of seedlings planted. Indirect expenditures pertaining to camp operations and administration are not allocated to the program. The agreement terminated September 15, 1985.

11. Economic Dependence

The Company is economically dependent on the Government of the Province of Manitoba.